

85<sup>th</sup> Legislative Session – 2010

Committee: Joint Appropriations

Monday, March 08, 2010

P - Present  
E - Excused  
A - Absent

Roll Call

P Ahlers  
P Burg  
P Bartling  
P Dennert  
P Hundstad  
P Wismer  
P Novstrup (Al)  
P Brown  
P Carson  
P Deadrick  
P Peters  
P Wink  
P Haverly  
P Putnam  
P Hunhoff (Jean), Chair  
P Tidemann, Vice-Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Senator Jean Hunhoff.

MOTION: TO APPROVE THE MINUTES OF JANUARY 26, 2010

Moved by: Peters  
Second by: Brown  
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 2, 2010

Moved by: Deadrick  
Second by: Peters

Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF JANUARY 22, 2010

Moved by: Carson

Second by: Tidemann

Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 9, 2010

Moved by: Novstrup (Al)

Second by: Brown

Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 16, 2010

Moved by: Brown

Second by: Peters

Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 11, 2010

Moved by: Burg

Second by: Brown

Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 10, 2010

Moved by: Bartling

Second by: Ahlers

Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF JANUARY 20, 2010

Moved by: Ahlers

Second by: Deadrick

Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 18, 2010

Moved by: Dennert

Second by: Peters

Action: Prevailed by voice vote.

**MOTION:** TO APPROVE THE MINUTES OF FEBRUARY 21, 2010

Moved by: Wismer  
Second by: Dennert  
Action: Prevailed by voice vote.

**MOTION:** TO APPROVE THE MINUTES OF FEBRUARY 1, 2010

Moved by: Putnam  
Second by: Deadrick  
Action: Prevailed by voice vote.

### **Revenue Projections**

Jim Terwilliger met with the Joint Appropriations Committee to present the Bureau of Finance and Management's revenue projections. Documents 1 and 2 were distributed. Document No. 1 was entitled "The U.S. and South Dakota Economies" and presented information on the key variables used in forecasting and tracking the economy for both the state and the nation: nonfarm employment, unemployment rate, nonfarm income and real GDP.

Mr. Terwilliger told the Committee the Bureau feels the worst is behind us but economic recovery is expected to be slow. Consumer spending will be weak, wealth has been depleted, credit remains tight and job creation will be slow. Uncertainty remains on how the economy will perform when the economic stimulus funds begin to fade and according to IHS Global Insight's February forecast, the probability of a "V" shaped recovery is 20% and the probability of a "double-dip" recession is 15%.

Mr. Terwilliger stressed that the most recent data is from December 2009. From 1995 through 2006 South Dakota correlates very closely with the US figures. While South Dakota came out of the recession faster than the rest of the country, we did not experience job growth. Data shows a distinctive decline in non-farm employment in the last year (a 2.8% decline).

South Dakota's unemployment rate is 4.8% and is well below the national average of 9.7%. Between 2000-2008 the average growth in nonfarm income was 5.4%.

Mr. Terwilliger discussed Document No. 2, entitled "Revenue Forecasts".

### **Sales and Use Tax**

The average annual increase in net collections between FY2001 and FY2009 was 4.81%. Net collections from the sales and use tax account for approximately 58% of continuing general fund revenues in FY2011. In the first eight months of FY2010, sales and use tax collections, excluding audits and net of large project refunds, were \$438.4 million. This is a decrease of 3.98% from the first eight months of last year. Year-to-date collections are 68.6% of the estimate. The Bureau

estimates \$647,190,262 or -1.75% in total receipts for FY10 and \$666,119,728 and a 2.92% increase for FY11. Mr. Terwilliger said sales and use tax must see growth in order to make the 2010 estimates.

#### Contractor's Excise Tax

The average annual increase in net contractor's excise tax collections between FY2001 and FY2009 was 4.51%. Net collections account for approximately 6.5% of ongoing general fund revenues in FY11. In the first eight months of FY10, net contractor's excise tax collections were \$56.4 million. This is an increase of 0.34%. Mr. Terwilliger said in order to meet the estimate, construction will need to pick up. Senator Hunhoff asked if stimulus funding was a part of the estimates. Mr. Terwilliger said some of the stimulus funding is a factor in this estimate.

#### Alcohol Beverage Tax

Through the first eight months of FY10, \$5.1 million has been collected from this tax. This is an increase of 2.36% from the first eight months of last year. Year-to-date collections are 51.78% of the estimate. The Bureau estimates \$9,819,764 or a 2.96% increase in FY10 and \$10,090,993 or a 2.76% increase in FY11.

#### Cigarette Tax

Through the first eight months of FY10, the total collections from the tobacco taxes totaled \$39,141,386 and the full \$30 million general fund portion has been collected.

#### Bank Franchise Tax

Ninety-five percent of the taxes paid by banks organized under SDCL 51A-2-38 to 51A-2-43 and 26 2/3% of all other revenues are deposited in the general fund. A majority is from bank card institutions and because of this, collections from the bank franchise tax are impacted more by the national economy than by the South Dakota economy. Through the first eight months of FY10, \$19.5 million has been collected from this tax. This is a decrease of 23.48%; year-to-date collections are 75.06% of the estimate. The Bureau estimate for bank franchise tax is \$26,003,010 or -22.17% for FY10 and \$24,932,772 or -4.12% for FY11. Mr. Terwilliger told the Committee that the bank card institutions are operating under new rules which may have an impact on the revenue collected.

#### Insurance Company Tax

Collections from this tax account for approximately 5.5% of ongoing general fund revenues. Through the first eight months of FY10, \$44.8 million has been collected; this is a decrease of 1.24% from the first eight months of last year. The Bureau estimates for FY10 are \$61,776,004 or -0.08% and \$63,399,238 or a 2.63% increase for FY11.

#### Trust Funds

Mr. Terwilliger said the \$30,689,217 projection for 2011 is based on actual numbers.

#### Property Tax Reduction Fund

Revenues come from three ongoing sources:

- 49.5% of video lottery net machine income;
- 60% of the revenue collected from the 4% tax on the gross receipts of telecommunication services; and
- 33% of the revenues in excess of \$35 million generated by the tobacco taxes from Initiated Measure 2.

Through February of 2010, video lottery net machine income is down 3.96% compared to last year. Through the first eight months of FY10, the state's share of the receipts from the telecommunications tax was \$4.4 million, an increase of 8.3% from last year. The Bureau's projections for FY10 are Video Lottery at \$104,529,856, Telecom Tax at \$7,685,809 and Tobacco at \$7,910,833 for a total of \$120,126,499 or (4.25%). For FY11 Video Lottery is estimated at \$102,230,199, Telecom Tax at \$8,400,590 and Tobacco at \$8,140,904 or (1.13%). Mr. Terwilliger said video lottery may have peaked, machines are dated and not being replaced and the impact that the possible smoking ban would have on the video lottery revenue is unknown.

The Bureau of Finance & Management's revenue projections were:  
\$1,107,912,360 for FY10 and \$1,143,984,038 for FY11.

Fred Schoenfeld and Aaron Olson presented the Legislative Research Council's (LRC) revenue projections. Document No. 3 was distributed.

Mr. Olson told the Committee the approach used by LRC for the past several years relies on analysis of trends for the various revenue streams being deposited into the general fund. BFM on the other hand uses a combination approach involving multiple regression analysis of key South Dakota economic variables; revenue trends; econometric analysis by an outside firm; and a panel of South Dakota economic advisers. Finally the Joint Committee combines both estimates using political and public policy judgments to adopt an official revenue estimate.

LRC takes year-to-date data for each revenue stream in FY10 and then annualizes it using the average percentage of revenues collected to this point in the fiscal year over the last 10 years. The FY10 estimate is then updated to FY11. To forecast revenue streams for FY11, LRC looks at the annual growth rate over the last 10 years. In some cases they use that rate and in other cases, mostly due to the recent recession, the growth rate is adjusted to reflect what is expected regarding a particular revenue stream.

Mr. Olson said South Dakota is beginning to turn the corner on the recession; however LRC is not ready to concede that the recent favorable reports are the trend. LRC is projecting no growth or moderate growth in a number of revenue streams. Projections were based on the following:

#### Sales Tax

Based on historical trends, sales tax is projected to be \$643,367,710 for FY10 and \$662,668,742 in FY11. A 3% growth rate, which represents modestly optimistic growth, was used in forecasting FY11. The typical annual growth rate for sales tax is approximately 5.6%.

#### Property Tax Reduction Fund

LRC projects PTRF to be \$123.7 million in FY10 and FY11. LRC used the trend for FY10 and assumed no growth in FY11 due to flat growth in recent years in this category and the recession's effect on video lottery.

#### Contractors' Excise Tax

Contractors' Excise tax is projected to be \$73.3 million in FY10 and \$74.7 million in FY11. LRC used the historical trend for FY10 and assumed 2% growth in FY11. For CET, the average growth rate has been about 7%.

#### Insurance Company Tax

Insurance Company Tax is projected to be \$62.8 million in FY10 and \$64.8 million in FY11. LRC used the trend for FY10 and assumed a 3.23% annual growth rate in FY11.

#### Licenses, Permits and Fees

LRC projected Licenses, Permits and Fees to be \$41.6 million in FY10 and \$42.8 million in FY11. LRC used the trend for FY10 and assumed a 2.97% annual growth rate for FY11. It should be noted that this has been adjusted to include the various fees passed last year.

#### Net Transfer In

Net Transfers In is projected to be \$32.1 million in FY10 and FY11. LRC used the trend for FY10 and assumed no growth in FY11 to reflect recent trends. As just mentioned, in the previous revenue stream, Net Transfers has been adjusted to reflect the cigarette taxes deposited into this category and the fees passed last year.

#### Trust Funds

The trust funds are estimated to bring in \$12 million in FY10 and \$30.7 million in FY11. LRC used the numbers reported by the Investment Council for this revenue stream.

#### Tobacco Tax

Mr. Olson said this revenue stream is capped at \$30 million and is projected to reach that cap.

#### Bank Franchise Tax

Bank Franchise Tax is projected to be \$28.1 million in FY10 and FY11. LRC used the trend for FY10 and assumed no growth in FY11 due to the uncertainty in upcoming federal regulations for banks and credit card companies. In addition, there is no question that lending practices have changed in previous months.

Mr. Olson said the difference between the projections provided by LRC and BFM is less than 1%. LRC's projection for FY10 is \$4,697,742 higher than that provided by BFM and \$7,961,088 higher than BFM for FY11.

The meeting was recessed at 10:45 a.m.

The Joint Appropriations Committee reconvened at 2:15 p.m.

Senator Haverly, Chairman of the Subcommittee on Revenue Projections reported that the Subcommittee had met and makes the following recommendations. Document No. 4 was distributed.

The Subcommittee recommends a FY10 revenue projection of \$1,106,912,360.

The Subcommittee recommends a FY11 revenue projection of \$1,140,533,052.

A number of committee members voiced their concern with the 3% increase between FY10 and FY11. While the economy looks better, the flooding potential and the possibility of the smoking ban could affect farm income and video lottery revenue.

Representative Tidemann felt the Subcommittee had brought forth two very conservative numbers and urged the Committee to support the Subcommittee's recommendation.

**MOTION:** TO ADOPT THE SUBCOMMITTEE'S FY10 RECOMMENDATION OF \$1,106,912,360.

Moved by: Tidemann  
Second by: Wismer  
Action: Prevailed by roll call vote. (15-1-0-0)

Voting Yes: Burg, Bartling, Dennert, Hundstad, Wismer, Novstrup (Al), Brown, Carson, Deadrick, Peters, Wink, Haverly, Putnam, Hunhoff (Jean), Tidemann

Voting No: Ahlers

**MOTION:** TO ADOPT THE SUBCOMMITTEE'S FY11 RECOMMENDATION OF \$1,140,533,052.

Moved by: Tidemann  
Second by: Haverly  
Action: Was not acted on.

MOTION: SUBSTITUTE MOTION TO ADOPT A FY11 RECOMMENDATION OF \$1,138,000,000.

Moved by: Peters  
Second by: Dennert  
Action: Failed by roll call vote. (7-8-1-0)

Voting Yes: Ahlers, Dennert, Hundstad, Novstrup (Al), Brown, Peters, Wink

Voting No: Burg, Bartling, Wismer, Carson, Haverly, Putnam, Hunhoff (Jean), Tidemann

Excused: Deadrick

MOTION: TO ADOPT THE SUBCOMMITTEE'S FY11 RECOMMENDATION OF \$1,140,533,052.

Moved by: Tidemann  
Second by: Haverly  
Action: Prevailed by roll call vote. (11-4-1-0)

Voting Yes: Burg, Bartling, Dennert, Hundstad, Wismer, Carson, Wink, Haverly, Putnam, Hunhoff (Jean), Tidemann

Voting No: Ahlers, Novstrup (Al), Brown, Peters

Excused: Deadrick

MOTION: ADJOURN

Moved by: Haverly  
Second by: Hundstad  
Action: Prevailed by voice vote.

Barb Bjorneberg  
Committee Secretary

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Jean M. Hunhoff, Chair